BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking to Promote Consistency in Methodology and Input Assumptions in Commission Applications of Short-run and Long-run Avoided Costs, Including Pricing for Qualifying Facilities.	Rulemaking 04-04-025 (Filed April 22, 2004)

COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE DRAFT DECISION OF ADMINISTRATIVE LAW JUDGE MEG GOTTSTEIN

I. INTRODUCTION

Pursuant to Rule 77.3 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) submits these Comments on the Draft Decision (DD) of Administrative Law Judge (ALJ) Meg Gottstein. The DD accurately characterizes the consensus and nonconsensus positions of intervening parties over the past five months as part of the 2006 Update to avoided costs and E3 calculator. DRA strongly supports the conclusions of law proposed in the DD, with the following suggestions to help clarify language in the DD and to ensure that the 2006-08 Energy Efficiency program cycle stays on track.

II. DRA RECOMMENDS THAT THE COMMISSION EXTENDS THE CONSENUS DEFINITION OF ENERGY EFFICIENCY PEAK KW REDUCTION TO BE USED FOR THE UPCOMING ENERGY EFFICIENCY POTENTIAL UPDATE.

The DD agrees with the workshop consensus[1] on the definition of energy efficiency peak kW reduction for use during the current 2006-2008 program cycle from

[1] The workshop participants reached general consensus to adopt the DEER definition of peak KW, which defines peak kW as the average grid level impact for a measure between 2 p.m. and 5 p.m. during the three consecutive weekday period containing the weekday with the hottest temperature of the year.

the perspectives of portfolio planning and ex-post evaluation of portfolio accomplishments (p.23). However, it is unclear what definition will be used for the purpose of updating peak kW reduction goals for future program cycles, a process expected to be completed by no later than the end of 2007 in order to allow adequate time for the utility program administrators to plan for the 2009-2011 program cycle. While the Commission might consider an alternative peak definition in the future based on 12 monthly single hour coincident peak, this alternate definition could not be implemented in the absence of reliable hourly load shapes.

As requested in its March 27, 2006 post workshop comments,[2] DRA asks that Commission use the DEER consensus definition of peak load reduction in the upcoming energy efficiency potential studies, which in turn will form the basis for establishing the energy savings goals for the 2009-2011 program cycle. For the purpose of setting goals, the peak demand reduction adopted by the Commission should be as aggressive as the energy reduction potential as determined by the studies, but in no case should the resulting ratio of peak demand reduction target and energy savings target be no less than the conversion factor[3] (0.259) used to convert GWh to peak savings goals for the EE savings goals adopted in D.04-09-060. The 0.259 conversion factor has produced aggressive peak demand reduction goals for the electric utilities, so DRA believes that this extra step will at the very least ensure that the 2009-2011 demand reduction goals will be at least as aggressive as the 2006-2008 demand reduction goals.

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[2] See March 27, 2006 Comments of the Division of Ratepayer Advocates

In response to the Administrative Law Judge's ruling soliciting postworkshop comments on the e3 report on 2006 update to avoided cost and e3 calculator, p. 2. "DRA believes that the DEER kW definition would work best for the basis of establishing peak kW reduction goals for future program cycles as well."

[3] The conversion factor of 0.259 was used to convert GWh to peak savings. As discussed in Appendix A of the CEC Staff Report entitled "Proposed Energy Savings Goals for Energy Efficiency Programs in California" dated October 27, 2003, the historical relationship between GWh and MW savings has varied from 0.17 to 0.41, depending on the mix of measures being promoted by the utilities and the relative level of peak savings emphasis from the Energy Commission. For program years 2001 and 2002, the conversion factors from energy to peak are 0.41 and 0.34 respectively.

As discussed in the DD, PG&E proposes that the peak kW definition be extended to 6 p.m. for the *ex post* studies of its 2006-2008 portfolio savings impacts[4]. While the DD rejects this proposal for the ex-post evaluation of the 2006-2008 program portfolios, it reaffirms that the future need to consider "an appropriate long-term definition for energy efficiency peak kW impacts in the context of available load shape data."[5] The extension of the DEER definition of peak load reduction to set goals for the 2009-2011 program cycle does not preempt this need.

III. DRA RECOMMENDS THAT THE COMMISSION CLARIFY THAT PROGRAM REBATE/PARTICIPANT INCENTIVES CANNOT EXCEED THE PARTICIPANT COSTS WHEN CALCULATING THE TRC COSTS.

DRA agrees with the DD that all costs associated with energy efficiency activities authorized through revenue requirements should be reflected under "program administrator program costs." The DD further explains that the "it would be appropriate to subtract the amount of 'incentive payments' or 'cost reimbursements' from the measure/equipment installation costs that appear in the participant cost component in order to avoid double counting them in the TRC test" (p.66). This is represented formulaically as:

[TRC Costs] = [Program Admin Costs] + [Participant costs] – [Participant incentive]

The confusion, however, lies in whether the term [Participant incentive] can exceed [Participant costs], where [Participant costs] may consist of (i) incremental measure costs in the case of a replace-on-burnout retrofit, (ii) full measure costs including installation cost in the case of an early replacement, or (iii) zero dollars if a program implementer provides the equipment and/or service at no cost to the participant. DRA has previously proposed that that Commission consider instituting a cap on participant incentive to avoid situations where the Total Resource Costs (TRC) benefit-cost ratio is higher than the Program Administrator Costs (PAC) benefit-cost ratio. The Commission

[4] DD, p 22.

[5] Id.p.25.

rejected such a proposal, on the basis that the TRC test does not speak to the design of programs, leaving such program design issues to the discretion of the program implementer. Nevertheless, the SPM does have a narrow definition of participant incentive, which is given by the dollar benefits to *offset* the participant cost[6]. In other words, for a given energy efficiency program, the [Participant incentive] within the program design context may be different from the [Participant incentive] used to calculate the program TRC. While there need not be any cap to the [Participant incentive] from a program design perspective, the amount of [Participant incentive] that can be subtracted out when calculating the [TRC costs] cannot exceed the participant costs, i.e., the net participant costs cannot be less than zero.

DRA offers these redlined changes to the following statement in the DD to help clarify the calculation of the TRC costs:

> "[T]he only logical application of the SPM formula that is consistent with this definition is to (1) include the full cost of customer rebates and/or direct install costs paid for out of utility revenue requirements in "program administrator program costs", and (2) include all participants costs incurred as a result of participating in a program, and (3) subtract ~~those amounts from the measure/equipment installation costs, but only up to the total level of those costs~~ a portion of the program rebate/incentive costs not to exceed the participant costs *(i.e., no negative participant costs should appear in the formula)*." (DD p.67)

Below are two examples to illustrate this definition:

> (i) Customer buys a $6 compact fluorescent lightbulb to replace a $2 incandescent bulb and receives $1 rebate. Net Participant Costs = Participant costs – Participant incentive = ($6 - $2) - $1 = $3

[6] "Some difference of opinion exists as to what should be called an incentive. The term can be interpreted broadly to include almost anything. Direct rebates, interest payment subsidies, and even energy audits can be called incentives. Operationally, it is necessary to restrict the term to include only dollar benefits such as rebates or rate incentives (monthly bill credits). Information and services such as audits are not considered incentives for the purposes of these tests. If the incentive is to offset a specific participant cost, as in a rebate-type incentive, the full customer cost (before the rebate) must be included in the [participant costs]." Standard Practice Manual, July 2002

(ii) Customer receives a free $6 CFL at a event promoted by an energy efficiency program implementer. Net Participant Costs = Participant costs – Participant incentive = $0 - $0 = $0

Based on the above TRC costs definition, the TRC costs for a direct install program with zero participant costs should be the same as the PAC costs.

IV. DRA RECOMMENDS THAT JOINT STAFF INVESTIGATE THE FEASIBILITY AND ADDITIONAL COSTS OF EVALUATING HOURLY IMPACTS FOR ALL HOURS AS PART OF THE IMPACT EVALUATION STUDIES PRIOR TO BEGINNING THE LOAD SHAPE UPDATE INITIATIVE.

The DD supports parties consensus that improvements to load shape data are necessary to better forecast peak demand reduction for measures and/or end uses as well as the resultant avoided costs. Specifically, the DD directs "the utilities to contract with appropriate expertise to develop a Load Shape Update Initiative (LSUI) in our energy efficiency rulemaking."[7] The output of the LSUI is expected to feed into the EM&V plans, including the DEER update, managed by Joint Staff.

The DD currently sets out a schedule for the utility contractor to lead a scoping workshop, followed by a draft report with preliminary recommendations to be submitted by no later than October 1, 2006. A final report is due on November 15, 2006 after additional public workshops on the draft report. While this appears to be a reasonable standalone schedule for the LSUI, it lags behind the current EM&V schedule,[8] which specifies that the evaluation study plans and detailed budget would be completed by June 2006, with Joint Staff issuing RFPs which will include detailed study plans beginning in July 2006.

It is important to recognize that the LSUI is not equivalent to load shape studies, which should be part of the EM&V efforts managed by Joint Staff. In fact, the Evaluation Reporting Protocol currently requires that EM&V consultants conducting

[7] Draft Decision, p.56.

[8] Per "Administrative Law Judge's Ruling adopting protocols for process and review of post-2005 evaluation, measurement and verification (EM&V) activities", January 11, 2006.

impact evaluations provide the gross and net kW and kWh savings for each calendar year for each year over the effective useful life of the measures installed. Furthermore, gross and net demand savings must be reported for six time periods for each of four months as follows: noon-1 p.m., 1-2 p.m., 2-3 p.m., 3-4 p.m., 4-5 p.m., and 5-6 p.m. for June, July, August and September, for each climate zone for which there are program participants[9]. In other words, measure-level peak demand reduction is already a component of the impact evaluation activities. The reported demand savings values should be adequate to inform Joint Staff whether the program has met its peak reduction goals, as per the peak reduction definition discussed earlier in section II. The remaining question is the hour-by-hour impact of measures for the remaining 18 hours between June and September, and for all hours in the other months. Given that the current avoided costs methodology differentiates the value of energy savings for each of the 8760 hours in a year, it seems worthwhile to capture the hourly impact for all hours as part of the impact evaluation studies. DRA recommends that as part of the upcoming public workshops on the detailed EM&V plans, Joint Staff solicits input on (i) the feasibility and additional costs to evaluate hourly impacts for all hours, as well as (ii) what measures/end uses should be given top priority for the hourly impact study. Based on workshop input, Joint Staff can then determine the extent that the impact evaluation studies can be expanded to include detailed load shape studies given the budget constraint. DRA further recommends that the Commission allow flexibility in the scope of the LSUI to make sure that it complements rather than duplicates that of the EM&V planning process.

[9] 2005 Energy Efficiency Evaluation Protocols, p.123.

V. CONCLUSION

For all the foregoing reasons, DRA respectfully recommends that the Commission adopt the Draft Decision with the modifications discussed above.

Respectfully submitted,

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June 12, 2006

PROPOSED CHANGES TO THE FINDINGS OF FACT AND CONCLUSIONS OF LAW (suggested new language in **BOLD)**

Findings of Fact

6. The consensus recommendations concerning the estimates of peak kW the utilities should use for rebalancing their portfolios and reporting program accomplishments during the program cycle are consistent with Rule IV.11 of the Commission's adopted energy efficiency policy rules. **Additionally, the utilities should use the DEER consensus definition of peak load reduction in the upcoming energy efficiency potential studies, which in turn will form the basis for establishing the energy savings goals for the 2009-2011 program cycle.** However, further clarification is warranted with respect to customized rebate programs, as discussed in this decision.

Conclusions of Law:

1. Until further notice of the Commission, it is reasonable to:
    a) Use the 2005 DEER Update definition of peak kW for the purpose of verifying energy efficiency program and portfolio performance, and
    b) Require the utilities to apply this definition to energy efficiency uses during the 2006-2008 program cycle, including any necessary portfolio rebalancing.
    c) Extend the DEER consensus definition of peak load reduction for use in the upcoming energy efficiency potential studies, which in turn will form the basis for establishing the energy savings goals for the 2009-2011 program cycle

2. The consensus recommendations concerning the estimates of peak kW that the utilities should use for rebalancing their portfolios and reporting program accomplishments during the program cycle are reasonable and should be adopted. **Additionally, the DEER consensus definition of peak load reduction should also be used in the upcoming energy efficiency potential studies, which in turn will form the basis for establishing the energy savings goals for the 2009-2011 program cycle.**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **"COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE DRAFT DECISION OF ADMINISTRATIVE LAW JUDGE MEG GOTTSTEIN"** in **R.04-04-025-2006 UPDATE"** by using the following service:

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Executed on **June 12, 2006** at San Francisco, California.

/s/ REBECCA ROJO
Rebecca Rojo

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